



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2018

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time allowed:** Reading - 15 minutes  
Writing - 03 hours.

28-07-2018  
Afternoon  
[1.45 – 5.00]

- (2) **All questions should be answered.**

No. of Pages : 06

No. of Questions : 06

- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**

- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**

- (5) **Use of Non-programmable calculators is only permitted.**

- (6) **Graph Paper will be provided.**

- (7) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

- (8) **100 Marks.**

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**SECTION A**

**Objective Test Questions (OTQs)**

Twenty (20) compulsory questions

(Total 40 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

- 1.1** The value of next best alternative for the foregone in the choice of a particular decision is known as:

- (1) Opportunity cost. (2) Accounting cost.  
(3) Avoidable cost. (4) Marginal cost.

- 1.2** If the percentage (%) change in quantity demanded is greater than the percentage change in price, the demand is:

- (1) Inelastic. (2) Unitary elastic.  
(3) Elastic. (4) Perfectly inelastic.

**1.3** The market structure in which there is only a single seller is known as:

- (1) Monopolistic competition.
- (2) Perfect competition.
- (3) Monopoly.
- (4) Oligopoly.

**1.4** When the proportionate increase in output is same as the proportionate increase in input, it is known as:

- (1) Constant returns to scale.
- (2) Increasing returns to scale.
- (3) Decreasing returns to scale.
- (4) Marginal returns to scale.

**1.5** A price ceiling (maximum price) is imposed by the government in the free market system to protect the:

- (1) Consumers.
- (2) Producers.
- (3) Importers.
- (4) Competitors.

**1.6** The aggregate of narrow money supply, time and savings deposits held by public at commercial banks and foreign currency deposits is known as:

- (1) Broad money multiplier.
- (2) Monetary base.
- (3) Broad money supply ( $M_2$ ).
- (4) Consolidated Broad Money Supply ( $M_2b$ ).

**1.7** According to the Annual Report of the Central Bank of Sri Lanka for the year 2016, Colombo Consumers' Price Index (Based year 2013 = 100) for the year 2015 and 2016 were 109.8 and 114.7 respectively. The rate of inflation between the two years was:

- (1) 4.3%
- (2) 4.9%
- (3) 4.5%
- (4) 9.8%

**1.8** The quantity of goods and services that can be purchased in the domestic market with a unit of money is known as:

- (1) Internal real value of money.
- (2) Official external value of money.
- (3) External value of money.
- (4) Real external value of money.

**1.9** Select from the following, an injection to the flow of National Income:

- (1) Savings.
- (2) Taxation.
- (3) Imports.
- (4) Exports.

**1.10** According to the Annual Report of the Central Bank of Sri Lanka for the year 2017, the Economic Growth Rate in Sri Lanka for the year 2017 was:

- (1) 3.1%
- (2) 5%
- (3) 7.5%
- (4) 4.5%

State whether each of the following statements in question No.1.11 to 1.15 is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- 1.11 Economics is a social science.
- 1.12 Satisfaction obtained by a person after consuming one additional unit of a product is called as total utility.
- 1.13 Factors of production can be divided into fixed factors and variable factors in the short run of a firm.
- 1.14 There is a negative relationship between transaction motive for demanding money and real income.
- 1.15 The income effect and substitution effect are the two main reasons for the negative relationship between price and quantity demanded.

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.20. Write the selected word/words in your answer booklet with the number assigned to the question.

- 1.16 The profit is the reward for ..... (*entrepreneurship / capital*).
- 1.17 At the market equilibrium, there is ..... (*an / no*) excess demand or excess supply.
- 1.18 ..... (*Normal / Inferior*) goods have a positive income elasticity of demand.
- 1.19 The interest rate determined at the point of intersection of money demand and money supply curve is known as the ..... (*equilibrium interest rate /excess interest rate*).
- 1.20 An overall improvement in the entire social system along with increase in the production of goods and services is known as ..... (*economic growth / economic development*).

(02 marks each, Total 40 marks)

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End of Section A

## **SECTION B**

Four (04) compulsory questions

(Total 40 marks)

### **Question 02**

- (a) **State** three(03) underlying assumptions of the Production Possibility Curve (PPC). (03 marks)
- (b) **State** three(03) differences between the capitalist (market) economy and the socialist (planned) economy. (03 marks)

(c) You are given the following demand ( $Q_d$ ) and supply ( $Q_s$ ) equations for a commodity:

$$Q_d = 80 - 6p$$

$$Q_s = -20 + 4p$$

(i) **Calculate** the equilibrium price of the commodity. (02 marks)

(ii) **Calculate** the equilibrium quantity of the commodity. (02 marks)

(Total 10 marks)

### Question 03

(a) **Explain** the relationship between Total Production (TP), Average Production (AP) and Marginal Production (MP). (06 marks)

(b) **State** four(04) differences between Monopoly and Monopolistic Competition. (04 marks)

(Total 10 marks)

### Question 04

(a) **Explain** the consequences of granting a unit subsidy for a commodity by the government with the help of a graph. (06 marks)

(b) (i) **State** two(02) reasons for the government to intervene in the market economy. (02 marks)

(ii) **State** two(02) ways of interventions in the market economy by the government other than granting subsidies. (02 marks)

(Total 10 marks)

### Question 05

(a) Assume that **country A** and **country B** produce both wheat and potatoes. The following table summarizes the units of wheat and potatoes that both countries produce by using one unit of resources.

Product \ Country	Wheat (kilograms)	Potatoes (kilograms)
A	6	4
B	1	3

**Explain** which country has the comparative advantage in the production of each product with supporting calculations. (06 marks)

(b) **State** four(04) consequences of devaluation of the Sri Lankan Rupee against US Dollar. (04 marks)

(Total 10 marks)

End of Section B

## SECTION C

A compulsory question

(Total 20 marks)

### Question 06

(A) (i) **State** three(03) qualitative controls of the monetary policy of the Central Bank of Sri Lanka. (03 marks)

(ii) “Banks face the challenge of maintaining a balance between the two conflicting objectives of liquidity and profitability”.

**Explain** the above statement. (04 marks)

(B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	<b>Rs. million</b>
Private Consumption Expenditure	1,500
Government Consumption Expenditure	1,500
Gross Domestic Capital Formation	3,000
Net Exports	2,500
Net Factor Income From Abroad (Net foreign primary income)	750
Capital Depreciation	1,000

Using the above information,

**You are required to,**

**Calculate** the following:

(a) Gross Domestic Expenditure. (04 marks)

(b) Gross Domestic Product (GDP) at market prices. (02 marks)

(c) Gross National Product (GNP) at market prices. (02 marks)

(d) Net National Product (NNP) at market prices. (02 marks)

(C) **State** three(03) Macro Economic Objectives of the government. (03 marks)

(Total 20 marks)

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*End of Section C*

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## ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
	<b>Record</b>	Enter relevant entries in detail.
<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.